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SUBJECT: ALBANIA'S INVESTMENT CLIMATE STATEMENT: 2007

REF: 07 STATE 158802

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Summary -----

1. Sixteen years after emerging from an isolated communist dictatorship, Albania is enjoying macroeconomic stability marked by steady economic growth, low inflation and rising per capita income. Nonetheless, foreign direct investment in Albania, while growing, continues to lag compared to its neighbors. Albania's government has pursued economic liberalization for over a decade and there are consequently many opportunities for investors - property and labor costs are low, there is a young, well-educated and multilingual workforce ready to work, tariffs and tax rates are low and the government is working to further reduce barriers for business such as streamlining business registration procedures, improving transparency in tax administration and creating incentives for foreign investment. Albania's geographic location offers further trade potential, especially with EU markets - the country shares a land border with Greece and is directly across the Adriatic Sea from Italy. Albania is also rapidly developing trade ties with its Balkan neighbors and also the EU, as evidenced by a regional free trade agreement and also a Stabilization and Association Agreement with the EU. However, investing in Albania does come with significant risks. The country's infrastructure, while improving, remains poor and transportation networks, electricity supply, water delivery and sewage treatment are not up to international standards. Endemic corruption, a weak judicial system and unresolved property claims are additional hurdles for foreign investors. Nevertheless, Albania's economy is one of the fastest growing in Europe (averaging almost six percent growth annually for the past six years), inflation is low (averaging three percent per year) and the local currency has remained stable for several years, appreciating significantly against the dollar and marginally against the euro.

Openness to Foreign Investment -----

2. The Government of Albania (GOA) seeks to attract foreign investment and understands that such investment will be indispensable to sustained economic growth. Although the Government - through its Central Bank (BOA) and Ministry of Finance (MOF) - has been able to achieve a stable macroeconomic situation with growth for 2007 estimated to reach 6% and inflation remaining at 3%, the level of direct foreign investment remains the lowest in the region.

3. According to the Ministry of Economy, Trade and Energy's estimate, FDI for 2007 will reach an estimated Euro 400 million, up from Euro 259.8 million in 2006 and Euro 224 million in 2005. This increase was achieved despite the lack of adequate infrastructure and the severe power crisis that plagued the country during 2006-2007. However, the cumulative FDI remains among the lowest in the region and a large part of it comes from privatizations, including the 2007 privatization of Albtelekom, the state-owned telecommunications company. The GOA leadership recognizes this problem and the need to speed up the implementation of economic reform and the development of infrastructure designed to spur investment. During 2006-2007, the GOA embarked upon a number of fiscal and legislative reforms which are expected to positively impact the business climate in the near future and attract much needed foreign investments.

4. The "Albania 1 Euro" initiative, the reduction of the corporate tax rate from 20 percent to 10 percent as of January 2008, new laws on concessions and public procurement, the streamlining of business registration procedures, simplification of licensing procedures, tax administration reform, and a very ambitious 2008 agenda with large capital investments in infrastructure (mainly for roads) are examples of the GOA's commitment to pursue reforms and improve the business climate.

5. Albania could be in a position to significantly improve its level of foreign investment in the near future. In 2007 there was an increase in investor interest in a wide range of sectors, with energy generation, cement production, mining and oil heading the list. As Albania moves away from International Development Association (IDA) assistance (current per capita GDP figures indicate that Albania is no longer IDA eligible), it will lose much of the public and quasi-public financial support it has enjoyed from a variety of international institutions. This change may turn into an additional driving force for the GOA to press forward on reforms and become more effective in implementing investment friendly policies.

6. Officially, a legal framework to encourage investment already

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exists. Law 7764, dated November 2, 1994, and titled "On Foreign Investment," was designed to create a favorable investment climate for foreign investors in the country. The law offers considerable guarantees to all foreigners (either physical persons or legal entities) willing to invest in Albania. Such provisions include:

- No prior government authorization is needed and no sector is closed to foreign investment.
- There is no limitation on the percentage share of foreign participation in companies - 100 percent foreign ownership is possible.
- Foreign investment may not be expropriated or nationalized directly or indirectly, except for designated special cases, in the interest of public use and defined by law.
- Foreign investors have the right to expatriate all funds and contributions in kind of their investments.
- Most favorable treatment for investors according to international agreements is also provided under Albanian law.

17. There are limited exceptions to this liberal investment regime, most of which apply to broadcasting, health services and legal services. Restrictions on the purchase of real estate are also notable: agricultural land cannot be purchased by foreigners, but may be rented for up to 99 years; commercial property may be purchased, but only if the proposed investment is worth three times the price of the land. There are no restrictions on the purchase of private residential property.

18. Other legislation addresses investments made through acquisition-mergers, takeovers and green-field investment. Law 7638, dated November 19, 1992, "On Commercial Companies," is the key piece of legislation that regulates the activities of companies and establishes the type of legal structure under which companies may form. No distinction is made between foreign and domestic investors and Albania's tax system does not discriminate against foreign investors. In its attempts to conform its legislation with EU mandates, the GOA is in the process of revising the law "On Commercial Companies" and a new law is being drafted in early 2008.

19. Legislation concerning the public procurement process makes little distinction between foreign and domestic firms. Albania has taken steps towards bringing its legislation into line with the EU standards by approving a new public procurement law. The new law takes into account the principles of non-discrimination and equal treatment, transparency, value for money and legal protection of interests of bidders on public contracts. Direct tendering has been abolished and criteria to identify abnormally low bids have been introduced. The new e-procurement regulations approved by the GOA in October 2007 paved the way to the e-procurement system implementation at the central and local government level. Contracting authorities are required to publish procurement notices and tender dossiers on the Public Procurement Agency website, which can be accessed electronically by the public. However, the proper enforcement of the law is still a work in progress.

110. In 2007, the GOA approved legislation establishing the National Registration Center of Business (NRC). The new law changed business registration from a court-administered judicial procedure requiring several days and numerous administrative steps to complete to a new streamlined administrative process. The NRC, which became operational in September 2007, acts as a one-stop-shop and is intended to make it possible to register a business in a single day. Business registration will also be available at the NRC branches in 29 municipalities and once the new e-signature bill gets approved, businesses will be able to register on-line. The reform and modernization of the tax administration, public procurement and business registration procedures, through IT solutions and legislative enhancements, are being supported by the Millennium Challenge Threshold Agreement between the GOA and the Millennium Challenge Corporation (MCC), and implemented by USAID Albania.

111. Many activities in Albania require licensing and before engaging in an economic activity, a company should inquire if a license is required for the exercise of such activity. The procedures for getting a license are the same for national and foreign companies. In accordance with the Action Plan for Regulatory Reform in the licensing system, Albania's entire legal licensing system is under review and a broad simplification of licQ Qab`Qb`QIAQA A&n completed in many sectorQ Q`Q`Q`QbQ QQAQBQBQ@Qdrocarbons, public works, ``Q ```Q@QQQBQhe environment. The rev`Q`Q`Q`Q aQB@QQ@Qnize licensing legislati @ Q@QQQA@Q as to reduce administrati @@@QB@ses operating in Albania. Q QQ5 licenses, authorizationQQ sectors were revised. Q leed for a license for enu vities while the criteriaBT

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remainder were simplified. Nonetheless, the process of getting a license still remains cumbersome. Licensing is administered by eight different Ministries, depending on the sector, and there is no unified licensing process. However, the GOA eventually plans for the National Registration Center to provide licensing documents simultaneously with the registration of a business, once the center is consolidated.

112. Investors in Albania are entitled to judicial protection of the legal rights related to their investments. Parties to a dispute may agree to submit claims for consideration to an arbitration institution. Foreign investors also have the right to submit disputes to an Albanian court. Provisions regarding domestic and international commercial arbitration are incorporated into the Albanian Code of Civil Procedure. As a practical matter, however, corruption remains a problem in the judicial system, and some foreign investors have experienced delays and losses as a result.

113. The GOA does not screen foreign investments and the United States enjoys a popular image in Albania. Both the business community and public generally welcome American firms and their products.

114. Albania possesses considerable natural resources, including oil, gas, coal, iron, copper, chrome, water and hydroelectric potential. The privatization process of the past 17 years is coming to an end with the last privatization opportunities presented in several strategic sectors: energy, insurance, oil and gas, and telecommunications. The distribution arm of the state-owned Albanian Power Corporation (KESH), 76 percent of the stakes of the state-owned oil refiner ARMO, 61 percent of the shares of the insurance company INSIG and 15 percent of the state-owned stakes of the AMC mobile operator are al scheduled for privatization during 2008. The government plans to sell 76 percent of ARMO's shares in an open tender, with the remainder distributed to former owners of the land expropriated for the company and to ARMO employees. ARMO holds 25 percent of the domestic mobile market. The government expects to collect at least USD 100 million from the transaction. While the tenders for the privatization of ARMO and INSIG are expected within the first half of 2008, there is skepticism regarding the timely privatization of KESH due to its poor financial performance during the last two years,QQQQ14Q QE`DhF`hNpEqDir nations in Albania inclu\$e: e0d0a \$ AtalI,Q EBaece, Turkey, Germany, Cana\$a, f\$ Q` al\$ FlbbidN Ilvestment

focuses on oil & gas, telecommunications, manufacturing, insurance, cement & other sectors. The privatization strategy for the oil & gas sector explicitly seeks to attract qualified foreign firms as strategic investors in these sectors.

16. In June 2007, the GOA finalized the privatization of 76 percent of the stakes of the state-owned telecom operator, Albtelekom, to a Turkish consortium CETEL. Intesa Sanpaolo Group, the leading banking group in Italy and one of the top banking groups in Europe, entered the banking market during 2007. The group purchased 80 percent of the shares of American Bank of Albania, turning it into the second largest financial institution in the country. In addition, the French bank Societe Generale acquired 75 percent of the Banka Popullore's stakes and Credit Agricole S.A. is present through the Emporiki Bank.

17. Positive developments have been noted in the insurance sector during 2007, with a number of foreign insurance companies entering the Albanian market. The sector experienced a growth rate of 37 percent for the period January–November 2007 compared with the same period of the previous year. Uniga Group Austria purchased part of the shares of SIGAL, Vienna Insurance Group purchased part of Sigma and Aspis Group purchased part of InterAlbania.

18. Positive developments were also noted in the field of cement production. In October 2007, the GOA approved two major investment agreements in the cement sector. The first foresees the construction of a USD 250 million cement factory by the Greek company "Antea Cement," part of the international group Titan, while the second is an investment that totals Euro 155.5 million (approximately USD 225 million) by a Spanish company, "Cemento Aguila." Another company, "Fasto Berberi," has applied to commence work in 2008 in the construction of a cement factory, in addition to stone and clay carriers, with an investment estimated up to Euro 200 million. Meanwhile, "Todini Konstruktion" anticipates developing a cement factory, with an investment of Euro 250 million and the "Colacem" company has expressed its interest in cement production as well as stone and argil carrier development in an investment worth Euro 250 million.

19. Two agreements were signed for oil and gas exploration in

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August 2007 with the oil companies "Medoil" and "Streamoil Gas Limited." The companies plan to invest up to Euro 450 million. In December 2007, another oil company, Swiss-based Manas Petroleum, obtained permission to explore the northern half of Albania. At the end of 2007, the GOA approved the permit for the ASG Power consortium to build an undersea interconnection line between Albania and Italy (Seman-Foggia.) Meanwhile, in January 2008, the GOA approved the second underwater interconnection line between Albania and Italy (Vlore-Brindisi.)

20. On November 2007, METE organized the BOT concession bid for the utilization of the full hydro potential of the Devolli river, including all its tributary river branches. Banja Hydro Power Plant, a project initiated in 1986 but that was never completed, is a component of this project. Twelve foreign and Albanian companies expressed interest, while only two of them participated in the tender. The winner will be either EVN AG, an Austrian company, or "Landsvirkjun & Kurum Holding" (Turkish steel group Kurum Holding in a consortium with Iceland-based electricity company Landsvirkjun.) Kurum is already operating in Albania (Elbasan Steel factory/smelter.) The project foresees the construction of three hydropower plants on the Devolli river with a total capacity of approximately 400 MW, and annual power production of approximately 1,000 GWh. The GOA has announced plans to open an international tender for the construction of the Skavica HPP on the Drini River, with an installed capacity 500 MW, a project worth approximately Euro 650 million.

21. In addition, the new law "On Concessions", No. 9663, dated December 18, 2006, considered as the basis of the Albania "1 Euro initiative," established the necessary framework for promoting and facilitating the implementation of privately financed concessionary projects enhancing transparency, fairness, efficiency and long-term sustainability in the development of infrastructure and public service projects. One of its major amendments includes a better regulation for unsolicited proposals and of public-private partnerships in general. The law applies to a wide range of sectors, including:

- a) transport (railway system, rail transport, ports, airports, roads, tunnels, bridges, parking facilities, public transport);
- b) generation and distribution of electricity and heating;
- c) production and distribution of water, treatment, collection distribution and administration of waste water, irrigation, drainage, cleaning of canals, dams;
- g) collection, transfer, processing and administration of solid waste;
- d) telecommunication;
- dh) education and sport;
- e) health;
- k) tourism and culture;
- f) prison infrastructure;
- g) recycling projects, rehabilitation of land and forests, in industrial parks, housing, governmental buildings, service of maintenance of IT and data base infrastructure;
- gj) natural gas distribution;
- h) management contract or provision of public services including those related to sectors specified above.

22. In order to promote investments in priority sectors for the economic development of the country, in line with the government's strategic objectives, the GOA may offer concessions to local or international investors for the symbolic price of one euro. The GOA, with the approval of the Minister of Economy, authorizes concessions in other sectors besides the above-listed ones. The law does not apply to grant licenses, except to the extent that a license is issued within the framework of a Concession Contract.

23. Another positive development is the construction of the Durres-Kukes road, linking Albania with Kosovo. The road is scheduled to be completed by 2009 and will significantly shorten the traveling time to Kosovo, linking it to the port of Durres. With many other road segments scheduled for completion in the near term, Albania is progressing toward a modern road infrastructure meeting one of the main conditions to attract foreign investors.

24. "Doing Business 2008," a report of the World Bank and IFC that

investigates the regulations affecting 10 areas of everyday business, and assesses ease and equal opportunity for businesses, concluded that Albania is overtaking other countries in a number of areas, such as employing workers, registering property, paying taxes, enforcing contracts and trading across borders. "Doing Business 2008" covers the period April 2006- June 2007 and presents

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quantitative indicators across 178 countries on: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. During the period under review, Albania eased the tax burden by amending depreciation rates and reducing labor taxes and contributions. In addition, by reducing the number of documents, days and costs of exporting and importing, Albania improved from 101st to 70th position among the 178 countries, in terms of the ease in trading across borders. Despite good progress in other areas, Albania also saw slippages in its ranking with respect to other countries, namely, starting a business, dealing with licenses and protecting investors. It should be noted that the report did not take into consideration numerous reforms undertaken by the GOA since they were implemented after the cutoff date, June 2007. Albania's new business registration center, inaugurated in early September 2007, moderate improvements in licensing procedures, taxes and easing of property registration, are all additional improvements to Albania's investment climate. Another reason which significantly impacted Albania's overall position is the evaluation of procedures for closing a business. Since Albania still has no formal bankrupt proceedings for companies, the report assigned a nominal "no practice" ranking of 178.

125. Moody's Investors Service assigned Albania the nation's first-ever sovereign rating of 'Ba1' country ceiling for foreign-currency bonds and an issuer rating of 'B1' for debt obligations of the government. The ceiling is based on the 'B1' government bond rating and Moody's assessment of a low likelihood of a payments moratorium in the event of a government bond default. A 'B2' foreign currency bank deposit ceiling and a local currency country ceiling of 'A3' were also assigned by Moody's with a local currency bank deposit ceiling of 'Baal'. The local currency country ceiling rating is the highest rating possible for any obligor domiciled in the Republic of Albania. Short term ratings of "Not Prime" were assigned to the government bond ratings, the country ceilings for foreign currency bonds and deposits, and the country ceiling for local currency deposits. The ratings reflect the fact that Albania began its transition to a market economy from an isolated, state-administered economy, and from a very low per capita income level. The economy suffers from a weak performance, energy shortages, poorly defined property rights, including an absence of comprehensive land title registry, a court system sub-optimal, and a generally cumbersome business environment. With the exception of the reform, the Albanian government is taking steps to address all these weaknesses. Despite the fact that Albania was rated below its neighbors, Macedonia and Montenegro, an international sovereign credit rating is a recognized benchmark for international financial institutions that Albania can be judged by internationally accepted standards.

126. The Albania Business and Investment Agency (ALBINVEST), restructured in 2006, provides direct assistance to investors, promotes SMEs, Albanian exports and FDI. Potential investors are encouraged to contact ALINVEST and relevant line ministries to discuss specific projects/interests and to obtain the necessary support from the government. Albanian Business and Investment Agency (ALBINVEST) Bld. "Gjergj Fishta", Pall. Shalvareve, Tirana, Albania tel: +355 4 252 886; fax: +355 4 222 341 e-mail: info@albinvest.gov.al [www.albinvest.gov.al]

127. Overall, the GoA has fully expressed its commitment to remove commercial barriers and facilitate investor interest. Its efforts have been focused on the need to reform a wide body of laws to improve the overall business regulatory environment. However, law enforcement and the upholding of contracts are often inconsistent and not always impartial. Corruption, lack of infrastructure, lack of a reliable energy supply and insufficiently defined property rights are among the main factors hindering the FDI.

Conversion and Transfer Policies

128. Foreign exchange regime: The Bank of Albania (BOA) formulates, adopts and implements the foreign exchange policy of Albania and maintains a supervisory role in foreign exchange activities in accordance with Law 8269 of December 23, 1997 (On the Bank of Albania), Law 8365 July 2, 1998 (On banks in the Republic of Albania) and the Regulation on Foreign Exchange Activities 101 of December 10, 2003 (FX Regulation).

129. As a general rule, the Banking Law does not impose any restrictions on the purchase, sale, holding, or transfer of monetary

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foreign exchanges. However, the Law on the BOA authorizes it to temporarily restrict the purchase, sale, holding, or transfer of foreign exchanges if the BOA so decides, intending to preserve the foreign exchange rate or its official reserves. In practice, the BOA has not used such measures in an overly restrictive manner and aims to achieve European standards for banking systems.

130. The Albanian currency, the lek, is freely convertible at banks and exchange bureaus. The Albanian foreign investment law guarantees the right to transfer and repatriate profits from Albania into freely usable currency and at a market clearing rate. Foreign exchange is easily found at a legal market-clearing rate. Most transactions are carried out in cash and both the dollar and euro are legally and commonly used. The lek floats freely and has remained stable against the euro despite some brief and seasonal fluctuations, but has appreciated significantly against the dollar, mainly due to the fluctuations in the international market. The average exchange rate for the US dollar in 2006 was \$1=98.1 lek and in 2007 was \$1= 90.43 while for the Euro the exchange rate in 2006 was 1Euro=123 lek and in 2007 was 1Euro=123.625 lek.

131. Foreign exchange transactions: Under the FX Regulation, foreign exchange transactions are those involving the exchange, purchase or sale of foreign currency in cash through a personal account or that of third parties, including the repayment of a loan in a currency different from the one in which the loan was granted or accepted, if not provided differently in a written agreement between the parties.

132. The FX Regulation defines a current account transaction as one between residents and non-residents that is recorded in the current account of the balance of payments. These include, among others, payments and transfers for settlements resulting from international trade (for example, payments for services provided within specific fields such as consulting, publishing, industry, construction, mining, transportation, insurance, and payments for any banking and exchange operations), and payments of loan principal and interest.

133. The FX Regulation defines a capital account transaction as one performed between residents and non-residents that is recorded in the capital account of the balance of payments (for example, direct investments, securities transactions, credit transactions, deposit transactions and insurance transactions).

134. Foreign exchange transfers abroad can only be carried out by licensed entities (domestic banks, foreign bank branches and foreign exchange offices) that are required to report their foreign exchange activities to the BOA regularly. These entities are also obliged to complete and keep all documentation required for the transfers abroad.

135. Although the FX Regulation provides that residents and non-residents may transfer capital within and into Albania without any restrictions, capital transfers out of the territory of Albania are subject to certain documentation requirements. Physical persons must submit a request indicating the reasons for the capital transfer, the amount of capital transferred outside the territory of Albania, and the address to which the capital is to be transferred. Such persons must also submit a declaration on the source the funds to be transferred. Legal entities must submit a request setting forth the reason for the capital transfer, the source of the funds, the amount to be transferred, and the address to which the capital is to be transferred; a document from the foreign entity explaining this transfer (if such a document exists); the decision by the legal entities' relevant decision-making body on carrying out the capital transfer; the legal entities' registration decision; and, a certificate issued by the tax office certifying that the legal entities has settled its tax obligations toward the tax authorities.

136. To combat the flow of illegal assets, new anti-money laundering legislation was passed in July 2003 that requires the reporting of all transactions over \$20,000. Since 2004, in an attempt to reduce cash transactions, the maximum limit accepted for transactions executed in cash was reduced from lek 1 million (\$10,000) to lek 500,000 (\$5,000) for transactions in 2004, and to lek 300,000 (\$3,000) for any subsequent year. For cash transactions over these limits, both buyer and seller are subject to a penalty of five percent of the transaction value.

137. Overall, payments, collections and transfers abroad of funds and other financial assets are unrestricted as long as tax obligations, debts, and reporting requirements have been met. Compliance with financial asset transfer laws has substantially increased in the last several years.

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Expropriation and Compensation

138. In the post-communist period, expropriation has been limited to land needed for infrastructure projects, such as roads and airports. Compensation has generally been below market value and some owners have complained about the slow compensation process and the low amount of payments. Several U.S. citizens and residents have long-running disputes with the government regarding restitution for property expropriated during the communist regime.

139. The property registration process has been completed in approximately 86 percent of the country and almost entirely in rural areas. However, more lucrative land in high value urban and coastal areas has still not been registered. Many of the unregistered properties are in the south coastal area, which is more valuable for its tourism potential, and where disputes are more frequent.

140. In 2006, the Albanian Parliament amended the July 2004 law on property compensation and restitution. The law aims to resolve competing land ownership claims resulting from communist-era expropriation of land. There are no significant changes other than transferring the authority responsible for the implementation of the entire legal process under the Government to a newly established agency. Also, the amount of land qualifying for restitution increased from 60 to 100 hectares. Another important change is the extension of the deadline for filing property compensation and restitution requests. The new deadline was October 1 2007, but there are attempts in Parliament to extend it to the end of 2008. The GOA has presented three methods of compensation for expropriation claims: 1) restitution, 2) compensation of property with similarly valued land in a different location, and 3) cash settlement. The successful implementation of the restitution process is an important challenge for the government and is key to future economic development. While restitution is expected to end within 2008, compensation claims are not expected to be resolved until 2014. In 2005 and 2006, a total of \$5 million was devoted by the Government for compensation. The GoA distributed lek 500 million (\$5.8 million) during 2007 and has allotted the same amount for 2008, an inadequate amount given the large number of compensation requests. Physical compensation has not started yet. The GOA is drafting a list of public assets to be used for this purpose.

Dispute Settlement

141. Albania has a civil law system similar to that of most other European countries. Legislation distinguishes arbitration of international disputes from arbitration of domestic disputes in that the parties involved in an international dispute may agree to settle through either a domestic or foreign arbitration tribunal. In Albania, ratified international agreements have legal superiority over domestic legislation. Albania is a member of the International Court for Settlement of Investment Disputes (ICSID) and is in the process of acceding to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the European Convention on International Commercial Arbitration. Under government regulations, international arbitration is recognized and accepted as legally valid. The Government accepts binding international arbitration on investment disputes and has over 40 internationally

accredited arbiters on the country arbitration list. The arbitrators will use the appropriate law based on issues determined by the parties. If the parties cannot agree on the issues involved in the case, the arbitrators will make the appropriate assessment. That said, the judicial system continues to suffer from corruption and unreliability. The GOA has taken steps to address this issue, establishing the High Council of Justice to investigate claims of judicial misconduct, but the process remains in its early stages. Although the situation is improving, investors cannot yet fully rely on the enforceability of contracts. Foreign firms and institutions have also been subject to nuisance lawsuits aimed at receiving cash settlements. Recent investment disputes have focused on the ownership of land considered ideal for tourism, mostly along the southern coast.

142. The Albanian Government, with World Bank financing, has established the Albanian Guarantee Agency (AGA), which provides political risk insurance for foreign and local investors in Albania. AGA administers the Political Risk Guarantee Facility (PRGF) and, with the exception of the production of tobacco products, alcohol and armaments, investors can apply for political risk coverage. Specific categories of risk covered by PRGF are:

- Inability to convert and transfer currency
- Expropriation

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- Seizure of goods, prevention of sales or prevention of exports/imports
- War or civil disturbances
- Cancellation of licenses and restrictions on import and export
- Imposition or increases of import or export taxes as consequence of war and civil unrest
- Interference in the transport of goods
- Diversion of voyage

143. The Albanian tax system consists of a package of laws, decisions and instructions, amongst which the most significant ones are:

Law no. 8438, dated December 28, 1998 "On Income Tax", Law 7928, dated April 27, 1995 "On Value Added Tax", Law 8560, dated December 22, 1999 "On Tax Procedures in the Republic of Albania", Law 8977, dated December 12, 2002 "On the fee system in the Republic of Albania" and Law 8982, dated December 12, 2002 "On local fee system", as amended, and the relevant implementing acts, embodying the so called the Albanian Fiscal legislation. The law "On tax procedures" establishes the structure and the functions of the tax administration, as well as the procedures that it must follow in the collection of national and local taxes and fees (tax audit, procedures of collection, sanctions.)

144. The fiscal administration is composed of (i) General Directorate of Taxes; (ii) District Tax Branches; (iii) Tax Appeal Commission; and (iv) Tax Offices of Local Authority. The General Directorate of Taxes directs the activity of the administration and provides for the collection of taxes and fees. The Tax Appeal Commission is vested with the authority to review the claims of tax violations. The Commission quantifies the violation and proposes the appropriate tax penalty to the General Tax Director. The decisions of the Commission are also subject to judicial review.

145. As part of the fiscal legislation reform, the GOA with the assistance of the Millennium Challenge Albania Threshold Agreement, is drafting a new law "On tax procedures." In September 2007, the GOA launched the public consultation process for the first draft of the new law. The law aims to modernize Albania's antiquated and corruption-prone tax administration. The GOA is currently working on revising the first draft to address the concerns raised by the business community and to ensure full compliance of the draft law with EU standards.

146. Bankruptcy is governed by Law 8901, dated May 23, 2002, and titled "On Bankruptcy." According to the law, a creditor has the right to request the opening of an insolvency proceeding in order to resolve debts. If the Court denies this request, the creditor has the right to appeal.

147. The Bankruptcy Law distinguishes the right of creditors as follows: a) Insolvency Creditors have an unsecured claim that is provable against the debtor at the time the insolvency proceedings are opened; b) Subordinate non-secured creditors whose claims are satisfied; c) Estate creditors whose claims are satisfied; d) Creditors with right of set-off can obtain satisfaction to the extent of the set-off; and e) Creditors with a right of separate satisfaction are secured creditor, who have a legal right to rely on specific items or kinds of property (collateral) of the debtor to obtain payment of part or all of an obligation owed to them by the debtor. The Bankruptcy Law does not contain provisions regarding bank transfers.

Performance Requirements and Incentives

148. Albanian law generally does not establish performance requirements or detailed incentives for foreign investors. Legal incentives include:

- Equal treatment of foreign and domestic investors
- Full profit and dividend repatriation (after taxation)
- Funds from the liquidation of a company may be repatriated
- Bilateral agreements on the promotion and protection of reciprocal investments
- Double taxation treaties

149. One important exception concerning performance requirements is the investment requirement relating to foreign persons' purchase of commercial property. Such a purchase can be made only if the

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investor plans to improve the value of the property by three times the purchase price. Some foreign firms operating in Albania have also complained that capital goods and raw materials, on occasion, have been subjected to the same taxes as consumer goods. The GOA has said that it is not official policy to subject capital investments to consumer taxes. To the extent there have been problems concerning this issue, they appear to result largely from corruption or misunderstandings by officials.

150. There are no requirements in Albania for foreign investors to

purchase from local sources or to export a certain percentage of the output.

¶51. Incentives are regulated by Law 9374, dated April 21, 2005, "On State Aid," with the aim to promote the implementation of important projects, to facilitate the development of specific economic activities, to promote national culture and heritage conservation, etc. "On State Aid" applies to all sectors of manufacturing and services and all measures undertaken by central and local government, as well as other entities acting on behalf of the state, that confer benefits to particular enterprises, except those acting in the agriculture and fisheries sectors.

¶52. State aid may take the form of subsidies or grants; exemptions, reductions, deferrals or tax credit and other fiscal contributions; writing off of overdue fees and penalties; debt write offs or offsetting of losses; loan guarantees or loans at reduced rates; reduction in the price of goods supplied and services provided, including sales/leases of public property below market price or buying products or services at higher than the market price; increase of state-owned equity at enterprises or increase of its value. This law also has a provision titled "Aid for Enterprises in Difficulties." The Ministry of Economy, Trade and Energy is currently establishing the respective regulations regarding conditions and procedures for granting this assistance. The Government has several initiatives to assist the development of local SMEs, specifically their marketing and exporting capabilities. Albinvest manages the export guarantee fund established in 2007 by the government. The 1.6 million Euro fund aims to facilitate funding of exports through loans from local and foreign commercial banks to enterprises, combined with commercial risk sharing. Albinvest also manages a competitiveness fund established by the GOA to promote the development of the SMEs. The 200,000 Euro competitiveness fund functions as a cost-sharing grant scheme to help develop businesses (finance SMEs).

¶53. In order to attract FDI, the GOA has developed a range of incentives for investors and has applied a set of liberal fiscal policies that include:

Reduction of corporate tax from 20 to 10 percent as of January 2008.

Reduction of the fiscal burden of social security contributions payable by employers from 29 to 20 percent as of June 2006.

Introduction of a flat tax of 10 percent on personal income tax as of August 2007.

Tax exemption of dividends designated for investments.

30 percent reduction of electricity rates for businesses - however, considering the increase of energy price in the international market, a significant price increase is expected to be approved in March 2008.

Importers of machinery and equipment can take advantage of VAT credit at the rate of 100 percent, if the machinery and equipment will solely serve to its taxable economic activity (Instruction of the Minister of Finances No.3, dated 30.01.2006.)

Facon producers' VAT exemption: Facon producers are not subject to VAT on services provided to their contractors providing that products under the scheme are re-exported. This is based on Law 7928, dated April 27, 1995, "On Value Added Tax," Article 25/6.

Subsidized leases of state-owned premises: Investors are eligible to lease state-owned property such as land or buildings at rents below market rates. In the case of production activities, the level of rent reduction will be made according to the level of investment made and the number of new jobs created. This is based on the decree of the Council of Ministers, No. 315, dated April 24, 2006 "On the leasing of state enterprises and institution's property."

Energy Sector Incentives: There are some fiscal incentives designed to encourage new means of generating electricity. Investors

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establishing new, or rehabilitating existing power generation plants with an installed power capacity of more than 5 MW using liquid or solid combustibles, are entitled to an exemption of custom duties on imported machinery and equipment used in the capital investment. They can also be reimbursed for the customs and excise duties paid on the import of liquid or solid combustibles used in the production of electric energy. This is based on Law 8987, dated December 24, 2002, "For the creation of facilitated conditions, concerning the establishment of new plants for the production of electric energy."

In 2006, the GOA launched a wide-ranging scheme of incentives for investors known as the 'Albania 1 Euro' initiative. The initiative is aimed at encouraging new investments in manufacturing and in strategic sectors to encourage foreign and local investment in the economy. This project focuses on offering state-owned property (assets, natural resources, economic activities, fees for public services, etc.) for a one euro sale price to qualified investors. However, it is still unclear how the proposal functions and it appears that the incentives are offered on a case-by-case basis, depending on the scale of investment and number of jobs created. The impact and effectiveness of this initiative in boosting investments is yet to be confirmed.

The new law on concessions No. 9663, dated December 18, 2006, set the basis of the Albania 1 Euro initiative, established the necessary framework for promoting and facilitating the implementation of privately financed concessionary projects enhancing transparency, fairness, efficiency and long-term sustainability in the development of infrastructure and public service projects. It aims to better regulate unsolicited proposals and the public-private partnership in general. The law applies to a wide-range of sectors.

The GOA approved a new law No. 9789, dated July 19, 2007 "On the Establishment and Functioning and Economic Zones", abolishing Law No. 8636, dated July 6, 2000, "On Free Zones." An economic zone can be either a free zone or an industrial park. At the end of 2007 and early 2008 the GOA approved two industrial parks respectively, one in Shengjin and one in Koplik. METE has also identified other economic zones and is working to finalize plans for their development. The establishment of free zones and industrial parks will offer more opportunities and incentives to foreign investors.

154. Albanian law permits private ownership and establishment of enterprises and property. Foreign persons intending to invest in Albania do not need additional permission or authorization to do so over and above that required of domestic investors. There has been significant progress as regards the right to establish private businesses. A new law on company registration procedures was adopted on May, 2007, establishing the National Registration Centre of Business (NRC) or, the so called one-stop-shop, intended to make it possible to register a business in a single day and in a single place. The NRC became operational in September 2007 and, in addition to the national headquarters, business registration will also be available at the NRC branches in 29 municipalities.

155. Thanks to the Millennium Challenge Threshold Agreement between the GOA and the Millennium Challenge Corporation, the once cumbersome court-administered judicial registration procedures are now replaced with streamlined administrative registration procedures. Companies are able to use a unique identification number for their relations with the different branches of public administration. As a comparison, in 2005, it took 10 separate procedures to start a business in Albania and an average of 42 days, while the associated costs were approximately USD 800. The NCR will eventually have branches in 29 municipalities.

156. This reform is a significant step in the overall Government program of improving the business climate in Albania. It provides several important benefits for Albanian businesses as well as foreign investors:

- Simpler, faster and much less costly process of registering a new business
- Simultaneous tax registration, social insurance, health insurance and labor directorate registration using a single application procedure.
- Application windows will be located throughout Albania, making it possible for a business to do all registration procedures locally.
- Free public access to Commercial Registry information via internet.

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157. Businesses will be able to find on the NRC (www.qkr.gov.al) website all the necessary documents and instructions on how to register a company.

In addition to the progress in the business registration process, some progress can be noted in streamlining cumbersome licensing procedures. In accordance with the Action Plan for Regulatory Reform in the licensing system, Albania's entire legal licensing system is under revision and a broad simplification of licensing procedures has been completed in many sectors including, mining, hydrocarbon, public works, health, agriculture and the environment. The process aims to adjust licensing legislation to EU standards as well as reduce administrative barriers for businesses operating in Albania. By the end of 2007, 135 licenses, authorizations, and permits covering 13 sectors were revised, resulting in elimination of the need for a license to operate in 26 different business activities and the simplification of the criteria and procedures for the remaining activities. In the long term, the licensing reform process aims at simplifying and harmonizing the licensing procedures in all commercial sectors making use of the principles of good governance and accepted administrative models such as Guillotine, administrative simplification, self-declaration principle and self-certification. The Albanian Government's licensing servicestory according to the "one-stop-shop" and corruption remain pervasive. Main factors discouraging business establishment are the large size of the grey economy and uncertainties related to property rights. A significant portion of economic activity, estimated to be between 35 to 60 percent of total GDP, remains outside formal legal structures. The grey economy and tax evasion seriously damage fair competition and support the establishment of economic monopolies in different sectors. Recognizing this problem, the GOA has embarked upon a very ambitious fiscal reform. The simplification of the tax system, reform on the tax administration, reduction of taxes and fiscal burden on businesses is expected to broaden the tax base and in the longer term, if implemented properly, significantly reduce the informal economy.

Protection of Property Rights

159. In 2000, Albania ratified the Marrakesh Agreement and became a signatory to the World Trade Organization's Trade Related Intellectual Property Rights (TRIPS) agreement. Albania also ratified the Hague Agreement of 1960 and the 1999 Geneva Act on the international registration of industrial designs.

160. Law No. 9380, dated April 28, 2005, covers intellectual property rights and protects copyrights, patents, trademarks, stamps, marks of origin, and industrial designs. In 2003, the GOA passed an anti-piracy law 9124, dated July 29, 2003, which required television stations to broadcast only those shows and movies that they had legally licensed for broadcast. The law was successful in forbidding the broadcasting of pirated movies and programs, however, it did not cover satellite or cable television programming. In order to fill in the loophole in the legislation and regulate adequately digital broadcasting, in May 28, 2007 the Parliament approved the Law No. 9742, on "Digital Broadcasting."

161. The current industrial property law from 1994 has been revised and the draft is currently under review. The new draft law brings Albanian legislation for the protection of industrial property into harmony with EU legislation, directives of the European Commission, the European Convention on the patents, the TRIPS agreement (commercial aspects of the industrial property rights) as well as other international agreements ratified by Albania in the field of industrial property.

162. The Copyright Office whose activities are regulated under the Law of 2005 on copyright and related rights is currently operational and works closely with ALBAUTOR, which protects music copyrights, and the Foundation for the Protection of Audiovisual Works (FPAA) which protects the copyrights of audiovisual works. The National Council of Radio and Television (NCRT) signed a memorandum of understanding with the National Cinematography Centre (NCC) aimed at

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fighting piracy and observing international copyright law. The Directorate General for Patents and Trademarks (GDPT) was restructured, and registration and administration of patents, trademarks and industrial designs has been computerized. This has improved the processing of applications and the supply of information.

¶63. However, further capacity strengthening of both the Copyright Office and the GDPT is still required. The general level of knowledge about IPR and infringements remains poor and the main factors that hamper the enforcement of IPR laws are the lack of appropriate experience and qualifications of judges, prosecutors, customs administration and staff and weak inter-institutional cooperation.

¶64. Albania is a signatory to the following international agreements on Intellectual Property Rights:

- Convention implementing World Intellectual Property Organization
- Paris Convention on Protection of Industrial Property
- Bern Convention on Literary and Artistic Works
- Patent Cooperation Treaty
- Madrid Agreement on International Registration of Marks
- European Patent Convention
- Budapest Treaty on Biodiversity
- Nice Agreement concerning the International Classification of Goods and Services for the purposes of the Registration of Marks.

¶65. Overall, Albanian law protects copyrights, patents, trademarks, stamps, marks of origin, and industrial designs. However, enforcement of these laws remains incomplete and violations of copyright, trademark, and other intellectual property rights are common. Pirated copies of DVDs and CDs, imported from other countries, are easily purchased in shops all over the country.

¶66. Enforcement of property rights in Albania remains an evolving issue. Immovable property rights (land rights) are still far from being well defined, especially in the coastal areas where there is potential for tourism development. Property restitution, corruption, illegal buildings and enforcement of court decisions are the most serious problems that have afflicted Albanian society during the post-communist transition period. Large-scale property confiscation during communist rule and the subsequent nationalization of the economy completely altered Albania's economic landscape.

¶67. Currently, enforcement of property rights is left to the claimant in the civil court system. It is estimated that almost 70 percent of all civil cases in the Albanian courts involve property disputes; most of these cases linger for years before reaching a final ruling. To date, almost 200 Albanian citizens have filed suit with the European Court for Human Rights in Strasbourg against the GOA over property claims. To address this issue, and relieve an increasingly burdened court system, the GOA, with USG and other donor assistance, is finalizing an immovable properties registration system to establish proper title to private claims to land ownership. The Real Estate Property Registration Office in each district handles land registration information requests, but they are considered susceptible to bribery. The government has adopted a strategy which links the processes of first registration of real estate, restitution and compensation and legalization of informally constructed buildings.

¶68. The GOA restarted the privatization process for small and medium size state-owned companies that was put on hold in order to comply with the restitution and compensation program. The Ministry of the Economy is in the process of identifying all the companies and working closely with the Property Restitution and Compensation Agency in order to secure the right for the land owners to be the first to purchase any disputed property. Eighty-six percent of Albania's total land has been registered. A first wave of informally constructed buildings on state land has been legalized. Illegal buildings in some coastal areas have been demolished. The Property Restitution and Compensation Agency (PRCA) has made some progress in accelerating the processing of property claims. A database to identify, assess, manage and prioritize the 41,000 outstanding restitution and compensation claims is being tested. A national map detailing land value is finalized. State-owned property that may be used to compensate in kind is being identified and mapped. Overall there has been progress on strengthening property rights, but proper coordination and further acceleration of restitution and compensation are needed. While the restitution process might finalize in the near term, compensation for property owners seems to be a far off dream due to the estimated cost of some USD 5 billion to settle all outstanding claims.

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¶69. Albania has signed the Convention of Multilateral Investment Guarantee Agency (MIGA). MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. Along with the MIGA Convention, Albania has signed the New York Convention of 1958 (on the recognition and enforcement of foreign arbitral awards) and the Geneva Convention on Execution of Foreign Arbitral Awards. The Overseas Private Investment Corporation (OPIC), a U.S.-government sponsored entity, can make insurance and project finance resources available to U.S. investors in Albania. OPIC's three main activities are risk insurance, project financing and investment funds.

Transparency of Regulatory System

¶70. Albania's regulatory system is not yet fully transparent. Businesses have difficulty obtaining copies of laws and regulations. Laws and regulations are also sometimes inconsistent, leading to unreliability in their interpretation. Proposed laws and regulations are sometimes not published in draft form for public comment (although recently there has been modest improvement in this area). Some ministries have undertaken steps to consult with business, civil society and affected groups about issues in proposed laws and regulations. Although Albania has taken some steps forward to improve business advocacy by reforming the legislation on Chambers of Commerce and by establishing the Business Advisory Council, business participation in the legislative processes remains limited.

Efficient Capital Markets and Portfolio Investment

171. The financial sector is dominated by commercial banks, practically all in private ownership. Currently, 18 banks are operating in the country - two domestically owned banks and 16 foreign or joint ventures. The degree of market concentration remains fairly high as the five largest banks dominate the market with about 75 percent of total assets as of July 2007. This is equivalent to a decrease of concentration by almost 4 percent since the end of 2005. The banking system is almost entirely private and the government plans to fully privatize the sector in the near term. The performance of the financial sector in channeling savings towards productive investment has recently improved, but still remains weak in comparison to Western standards. Banks in Albania offer standard banking services such as deposit accounts, foreign transfers, trade finance and, increasingly, mortgages. However, only half of them are active in lending.

172. Market competition has greatly strengthened and the quality of banking services provided to the public has significantly improved. Two major Western banks, the Italian Intesa SanPaolo Group and the French Societe Generale have entered the market through the purchase of domestic banks. The banking network has extended to most parts of Albania and developments in this respect are promising. At the end of 2007, there were 18 banks operating with 190 bank branches up from 127 bank branches in 2005, and 101 agencies. The American Bank of Albania was one of the first banks to introduce credit and debit card service (in 2004) and other banks are following suit, with eleven banks offering ATM and Point-of-Sales terminals and another four plan to introduce these services. The number of ATMs is growing rapidly; as of November 2007 there were 435 machines up from 335 machines at the end of 2006, 1,657 Point-of-Sale terminals up from 1183 at the end of 2006 and 590,016 electronic payments cards (97.86 percent debit cards and 2.14 percent credit cards) up from 353,465 at the end of 2006. Since 2005, the majority of state employees receives their salaries through electronic transfers and has been offered debit cards for all their transactions. A recent decision of the Council of Ministers that provides for the private sector to pay salaries through the banking sector is expected to boost the number of ATMs.

173. The role of the banking system as a primary developer of the economy is manifested in the amount of loans issued to private and commercial interests. The annual growth of credit moderated to 56 percent in 2006 from 74 percent in 2005. It increased to 58 percent during the first four months of 2007. Credit denominated in Albanian lek recorded the highest growth at around 78 percent in 2006, while credit in foreign currency grew by 47 percent. At the end of 2006, loans constituted 31 percent of total banking assets (or 37 percent of total deposits) compared to 25 percent at the end of 2005 and just 17 percent at the end of 2004. Outstanding credit added up to 22 percent of GDP in March 2007, while credit to businesses made up 66.5 percent of the credit portfolio of banks.

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The share of non-performing loans to total credit increased to 3.1 percent by December, 2006, compared with 2.3 percent at the end of 2005.

174. The recent fast growth of credit to the economy increases the risk of higher non-performing loans. The average return on assets remained stable at 1.4 percent in 2006, while the average return on equity decreased slightly to 20.2 percent in 2006 from 22.2 percent at the end of 2005. The average capital adequacy ratio stood at 18.1 percent at the end of 2006, 0.5 percentage points lower than a year earlier. This is mainly attributable to accelerated growth in risk-weighted assets, on the back of rapid credit growth. The capital adequacy ratio varied substantially between banks, with the lowest recorded at 12.4 percent. Stress tests point to solid resilience of the banking sector to possible shocks resulting from movements in exchange rates and interest rates and deterioration of credit quality.

175. In order to keep credit growth at sustainable levels, prudential supervision was strengthened during the last two years. The Law on Regulation on credit risk management was amended, establishing higher capital requirements for banks that record credit growth exceeding set benchmarks. In addition, a new banking law was adopted and entered into force in June 2007. The credit information bureau was opened in January 2008. Its main responsibility is to track consumers' credit histories. The regulatory framework for banking supervision is, following its recent comprehensive overhaul, well-developed and continuing the process of adapting standard international practices.

176. Moreover, the volume of deposits in the banking system has increased, representing the main source of growth in banking system activity. At the end of October 2007, the amount of deposits amounted to USD 7 billion, 20 percent more than a year ago. The banking system continues to represent a profitable investment sector and profit for 2006 is estimated at USD 75 million compared to USD 56 million in 2005. This trend is expected to continue in 2007.

177. In addition to banks, lending through micro finance institutions and savings and credit associations is effective in serving those segments of the population that do not have easy access to bank financing.

178. The service of e-banking transactions as a banking product appeared after 2000, but remains underutilized by the public. By the end of 2007, four banks offered this service for certain clients (mainly businesses for carrying out transfers and other specialized payments). The rest of the sector is likely to follow as e-banking transactions gain popularity.

179. The low level of financial intermediation remains an impediment to the development of the private sector, particularly to small and medium enterprises (SMEs). According to the banks and many SMEs, the following issues affect access to credit in Albania:

- A low level of domestic savings
- High interest rates
- Distrust of the banking system
- High operating costs of banks
- Poor business/project proposals

180. Credit lines can be obtained on the local market, but interest rates can be high under some circumstances, often between 10 to 18 percent. To obtain credit, applicants usually need to fulfill the following criteria, which varies from bank to bank:

- Satisfactory business plan
- Credit security (usually by mortgage)
- Applicant's own contribution in the investment project (about 40 percent of the value)

- Export-oriented and profitable project
- The entity requesting credit needs to be at least 51 percent privatized.

181. The insurance industry has also experienced high rates of growth over the last seven years but, relative to neighboring countries, the market for insurance in Albania remains largely untapped, especially for life insurance. Growth in the latter sector during January-November 2007 increased by 46 percent compared with the same period in 2006. The insurance sector for 2007 reached USD 60 million up from less than USD 40 million in 2006 and experienced a growth of 37.6 percent for the period January -November 2007 compared with the same period of the previous year. There are ten companies present in the insurance market, eight in the general and two offering only life insurance. The sector is expanding and attracting foreign investment. Insurance supervision and regulation

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are improving. An amendment of the insurance law was adopted in early 2007 and increased the guarantee fund for insurance companies.

182. The Tirana Stock Exchange remains in its infancy. No companies are publicly traded, but three have undertaken procedures to be listed. Domestic companies are financed primarily by cash flow. There are no bonds or securities to act as other credit instruments. Albania's Central Bank has introduced an electronic system for large and small payments, which will reduce administrative operations in banks. Cross-shareholding, stable shareholding and measures to prevent hostile takeovers are not well developed in Albania.

Political Stability

183. Albania achieved a peaceful rotation of power after parliamentary elections on July 3, 2005. The new government, led by the Democratic Party, took office in September 2005. The two-month interim period was marked by legal challenges to voting results, but political violence was avoided. Elections for local government took place on February 18, 2007 and, in spite of some technical, procedural, and related political problems, those elections were considered generally peaceful and democratic. In July 2007, the Albanian Parliament, after a protracted political struggle, elected a new President of the Republic, thus taking another step towards Albania's European and Euro-Atlantic ambitions. Small crime, specifically incidents of extortion, theft and robbery, continue to be of some concern to the business community. Nonetheless, the domestic climate has been steadily improving and the violent crime rate has substantially decreased. Albania is a steady source of stability in the region and relations with neighboring countries are friendly. The U.S. enjoys a particularly amicable bilateral relationship with Albania, which is a staunch American ally in the fight against international terrorism and has contributed several hundred troops to the war efforts in Iraq and Afghanistan.

Corruption

84 Corruption remains an issue of major concern in Albania. According to recent polls that gauge public perceptions, the institutions most affected are the health, judiciary, police, registry and permit services, utilities, tax agency and also political parties and Parliament.

185. To combat corruption, in 2004 the GOA established the High Inspectorate for Asset Disclosure, which was charged with collecting declaration of asset information from 5,000 state employees, including all high-ranking officials. In 2006, the High Inspectorate received additional responsibilities from the newly adopted law on conflicts of interest. This law increased the number of public officials who need to file financial information as well as some of their family members. The GOA has restructured the agencies responsible for combating corruption. The highest authority is the Fight Against Corruption Task Force, an inter-ministerial group bringing together the highest officials of the Albanian government. On the technical level there is the Department for Internal Audit and Anti-Corruption, which operates in the framework of the Council of Ministers. Police authorities and the Prosecutor General's Office are in charge of criminal investigations and law enforcement while the State Audit Commission and internal auditing units within different state institutions inspect, assess and report alleged cases of corruption.

186. Civil society organizations are very active in fighting corruption through increasing public awareness. The Albanian Coalition Against Corruption, an umbrella organization of over 300 organizations, is the primary civil society entity addressing the issue. One of the most active organizations within ACAC is the Citizens Advocacy Office (CAO), which has emerged as a high-profile anti-corruption watchdog and advocacy organization in Albania since its establishment in 2001. In December 2004, Transparency International (TI) and CAO signed a partnership agreement. The purpose of the partnership is to strengthen anti-corruption efforts in Southeast Europe in general and in Albania in particular.

187. Bribery is illegal in Albania. Under the Albanian Penal Code (Law 7895, dated January 27, 1995, articles 245 and 260), giving and/or accepting a bribe constitute criminal acts. These provisions were amended in September 2004 in accordance with the civil and criminal convention of the European Union. Giving a bribe is punished by fine or imprisonment up to five years, while public officials accepting a bribe can be punished by imprisonment from three to ten years. A code of ethics for public administration,

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designed to counter bribery, was also passed in September 2004.

188. On December 18, 2003, Albania signed the UN Anti-Corruption Convention, which was ratified by the Albanian Parliament in 2006. Although Albania is not a signatory country of the OECD Convention on Combating Bribery, the country does participate in two different regional anti-corruption initiatives. The first is the GRECO (Group of States Against Corruption), an initiative of the Council of Europe which seeks to improve its members' capacity to fight corruption through the monitoring of compliance of specific anti-corruption undertakings. The second is SPAI (Stability Pact Anti-corruption Initiative), an initiative of the Stability Pact for South Eastern Europe.

189. Elected on a campaign pledge to govern with "clean hands" in

2005, Prime Minister Sali Berisha has declared that the fight against corruption is a top priority for his government. While some progress has been made, corruption remains a serious problem for Albania. Transparency International's Global Corruption Barometer for 2007 ranked Albania the third most corrupt country among 60 polled countries and the most corrupt country in Europe, with 71 percent of respondents in Albania admitting they or a member of their household had paid a bribe in the last year. Respondents considered the medical system as the sector most affected by corruption, followed by the legal system/judiciary, the police, utilities, the registry and permit services, tax agency, political parties and Parliament. The religious bodies, the media, NGOs and the military are considered the least affected by corruption. However, except for the health sector, Albania ranked below the Southeastern European region averages on corruption's impact on different sectors and institutions.

190. The latest annual TI Corruption Perceptions Index, published in September 2007, ranked Albania 105th out of 180 countries surveyed, while in 2006 Albania ranked 111th out of 163 countries surveyed, up from 126th out of 159 countries in 2005. The Corruption Perceptions Index ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians and focuses on corruption in the public sector. CPI defines corruption as the abuse of public office for private gain. Albania's CPI Score, which relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt) was 2.9, the same as in 2006.

Bilateral Investment Agreements

191. A bilateral investment treaty between the United States and Albania was signed in 1995 and entered into force on January 3, 1998. This treaty, inter alia, ensures that U.S. investors receive national or most-favored-nation treatment and provides for dispute settlement. Albania also has concluded bilateral investment protection agreements with the following countries, in chronological order: Greece, Turkey, Romania, Bulgaria, Macedonia, Germany, Italy, France, Austria, Switzerland, Finland, Denmark, Sweden, the Netherlands, Great Britain, Slovenia, Croatia, Hungary, the Czech Republic, Poland, Russia, Israel, Tunisia, Egypt, China, Malaysia, Portugal, Belgium, Ukraine, Serbia, Montenegro, Spain, Korea, Moldova and in 2004 with Kosovo (UNMIK), but the later has not entered into force yet.

192. Albania has signed conventions for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital with many countries, which have priority over Albanian domestic law. Tax treaties are in force with the following countries: Poland, Hungary, Czech Republic, Italy, Sweden, Greece, Malta, Belgium, Netherlands, France, Norway, Switzerland, Rumania, Bulgaria, Macedonia (FYROM), Croatia, Moldova, Federal Republic of Yugoslavia, Kosovo (UNMIK), Turkey, Russia, Malaysia, China, Egypt and Austria.

OPIC and Other Investment Insurance Programs

193. The Overseas Private Investment Corporation (OPIC), a USG sponsored entity, can make insurance and project finance resources available to U.S. investors in Albania. OPIC's three main activities are risk insurance, project finance and investment funds. Albania has also signed the Convention of Multilateral Investment Guarantees Agency (MIGA). MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. MIGA's coverage is against the following risks: currency transfer restriction, expropriation, breach of contract, and war and civil disturbance. It provides insurance against risks similar to that offered by OPIC; MIGA and

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OPIC can work together on projects. MIGA offers long-term (up to 20 years) political risk insurance coverage to eligible investors for qualified investments.

194. OPIC has closed its regional office based in Zagreb, Croatia. However, OPIC will continue to provide services for this region from its Washington Office.

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195. General inquiries about USTDA's services should be made through USTDA's Information Resource Center by calling (703) 875-4357 or through USTDA's website: <http://www.tda.gov/>. You may also contact us by sending an e-mail to info@ustda.gov or by sending a fax to (703) 875-4009.

Labor

196. Labor relations between employee and employer are regulated by individual employment contracts pursuant to Law 8549, dated January 11, 1999, and the labor code, which was updated in July 2003. The GoA has established the National Council of Labor, composed of government officials, trade unions and employers associations. The government has also completed drafting a proposed Social Understanding Pact. The major goal of the Pact is to improve social dialogue between the government, management and employees.

197. Albania's population of just over three million people includes a working population of slightly more than two million. The median age is young by European standards, just 29 years old compared to 40 years of age in Italy. The current unemployment rate is officially 13.5 percent, while private estimates go as high as 25 percent due to the lack of reliable statistics. A high proportion of the

under-40s speak two languages. Foreign language training begins early in elementary education and continues through high school and university. Albanian youth are generally skilled in Italian and Greek thanks to the influence and vicinity of both countries. English is common among the younger generation and has become the dominant foreign language taught in the Albanian education system, followed by French and German.

198. Albania has a tradition of strong secondary education offering advanced skills that prepare students to enter into the labor market. Elementary education is compulsory and 80 percent of those who finish elementary school enroll to high school. The percentage of those who graduate from high school and enroll in university is 62 percent. In addition, the number of students who receive graduate degrees abroad has increased significantly, establishing a generation of skilled professionals. While some members of the labor force are highly skilled, many work in inefficient industries with outdated technology. However, Albanians are rapidly learning modern market practices and often display impressive entrepreneurship.

199. The minimum wage in Albania is lek 14,000 per month, among the lowest in the region. In May 2007, the government approved the minimum reference salary for the private sector, which serves to calculate the rate of contributions for social and health insurance; it is not necessarily the actual salary an employee receives. This proposal is aimed at countering the under reporting of revenue by businesses.

100. Albania adheres to all basic international labor organization conventions protecting worker rights. However, given the desperation of many Albanians for work and the weakness of government institutions, compliance cannot be assured. For example, child labor laws are poorly enforced and children sell cigarettes, candy, and other goods on the street.

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101. Employment contracts can be for limited or a limited period, but as a general rule employment contracts are signed for an unlimited period if the duration is not specified properly in the contract.

Foreign Trade Zones/Free Ports -----

102. The GOA approved a Law 9789, dated July 19, 2007 "On the Establishment and Functioning of Economic Zones", abolishing Law 8636, dated July 6, 2000, "On Free Zones." The current legislation regulates the establishment of economic zones and related matters and makes the establishment and the functioning of such zones more efficient. It anticipates the establishment of free trade zones and industrial parks near ports, airports or at the crossroads of international transport. Economic zones are proposed by the Ministry of Economy and approved by the Council of Ministers on a case-by-case basis. The latter has the power to define the status of the zone (either a free zone or an industrial park), areas and boundaries, the economic activities to be performed within the zones, the period of the zone functioning, the method of granting the permission (lease, concession, etc.) and the procedures for the selection of the "developer." The selection of the "developer" of the economic zones is based on the criteria defined in the law 9663, dated December 18, 2006 "On Concessions." Law 9121, dated 7 July, 2003 "On the Protection of the Competition" is applicable on the economic zones.

103. The GOA approved two industrial parks, one in Shengjin, near the Shengjin port and another one in Koplik, north Albania; both zones have an operating life period of 35 years. The land for both will be given on concession and the activities to be performed in both zones are production, manufacturing and agro-processing, trade, export-import and other supporting activities. Albinvest will serve as a "one-stop-shop" for the licensing of "users." The functioning of those zones starts following the construction of the surrounding boundaries, entrance and exit gates and the customs office (in the case of a free zone.)

104. Another three zones have been identified: Kurum - Durres Port, Spitalle -Durres and Shkoder. Other locations under consideration are Vlore, Durres-Shkozet, Elbasan and Korce. The largest one is expected to be approved during 2008 and will be located in Durres, near Albania's largest port.

105. The development of economic zones is considered by the government as a necessary step to ensure economic growth, and increase employment and competitiveness of the Albanian economy in the regional and international markets.

Foreign Direct Investment Statistics -----

106. The Bank of Albania reported the following figures for foreign direct investment in Albania, in millions of U.S. dollars: 2000 (143); 2001 (207); 2002 (135), 2003 (178), 2004 (341), 2005 (270) -- 2006 (325) and at the end of the third quarter of 2007, FDI reached Euro 370 million (USD 530 million). METE's projection for 2007 is Euro 400 million (USD 570 million.) During 2007 the GOA received Euro 120 million from the privatization of the state-owned telecom operator, Albtelekom.

107. METE's projection for 2008 may be optimistic, with FDI projected to reach Euro 500 million, fueled mainly by three privatizations scheduled to complete in 2008 and the strong foreign investor interest in strategic sectors like energy generation, oil, cement production, mining, tourism, etc. The latter is fueled by the reforms undertaken by the GOA in the legal and fiscal areas. Specifically, the new law on concessions paved the way for interested parties to submit unsolicited proposals and this resulted in a record number of investment proposals received by the GOA during 2007.

108. Cumulative FDI for the period 1995-2006 is USD 1.75 billion or an average of USD 58 per capita, among the lowest in the region. Sixty percent has come via the privatization process. Investment from U.S. firms has been limited to large scale infrastructure contracts with the Government, Bechtel and Lockheed Martin being the principal companies. Net flows of foreign direct investment (FDI) increased from 3.3 percent of GDP in 2005 to 3.6 percent in 2006, equivalent in absolute terms to an increase of around 16 percent. The telecommunications sector took the largest share of cumulative FDI inflows in 2006 (35 percent), followed by industry (32.5 percent) and services (11.8 percent) and for 2007 the projection is for telecommunications to be followed by the energy and industry

sectors.

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¶109. There are no reliable estimates of Albanian direct investment abroad, but it is believed to be significantly less than foreign investment here. According to METE, Direct Foreign Investment in 2006 totaled USD 400 million, a 100 percent increase over total FDI in 2005. Telecommunications, industry and services were the leading economic sectors for foreign investment.

WITHERS